2020 Pandemic Sell-Off: A credit manager viewpoint

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Unprecedented speed and magnitude of outflows led to severe illiquidity

**Inflows/outflows in Euro IG markets**

Source: Deutsche Bank, EPFR

**EUR 3d Moving Avg. Bid-Ask Spread by Rating Bucket**

**Inflows/outflows in Euro HY markets**

Source: Deutsche Bank, EPFR

**USD 3d Moving Avg. Bid-Ask Spread by Rating Bucket**

Source: DB research “Macro credit Brief” as at April 20, 2020, EPFR Data

Source: Muzinich calculations, April 14, 2020
A “rich” valuation starting point amplified the sell-off and outflows

Evolution of Spread to Worst on EUR/US IG/HY main indices

Performance and Spread to Worst of a series of indices

<table>
<thead>
<tr>
<th></th>
<th>Total return YTD at 21 Feb</th>
<th>Spread to Worst at 21 Feb</th>
<th>Total return 21 Feb to 23 Mar</th>
<th>Spread to Worst at 23 Mar</th>
<th>Total return 23 Mar to 15 Apr</th>
<th>Spread to Worst at 15 Apr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Euro IG</td>
<td>1.33%</td>
<td>89</td>
<td>-7.93%</td>
<td>238</td>
<td>2.67%</td>
<td>200</td>
</tr>
<tr>
<td>Euro HY</td>
<td>1.26%</td>
<td>311</td>
<td>-20.51%</td>
<td>868</td>
<td>10.91%</td>
<td>634</td>
</tr>
<tr>
<td>Euro Fin IG</td>
<td>1.07%</td>
<td>89</td>
<td>-8.68%</td>
<td>272</td>
<td>4.69%</td>
<td>189</td>
</tr>
<tr>
<td>Euro non-Fin IG</td>
<td>1.48%</td>
<td>89</td>
<td>-7.51%</td>
<td>219</td>
<td>1.55%</td>
<td>206</td>
</tr>
<tr>
<td>Euro Govvies AAA 7-10y</td>
<td>1.95%</td>
<td>4</td>
<td>-0.83%</td>
<td>4</td>
<td>0.96%</td>
<td>4</td>
</tr>
<tr>
<td>Italian BTP 7-10 y</td>
<td>3.60%</td>
<td>123</td>
<td>-5.37%</td>
<td>195</td>
<td>-1.96%</td>
<td>232</td>
</tr>
</tbody>
</table>

Source: Macrobond, ICE Index, Muzinich, as at April 15, 2020. Past performance is not indicative of future results. Not to be construed as an offer, invitation or inducement to engage in any investment activity.
PEPP: A decisive moment for Sovereign and Credit spreads

Financials versus non Financials - Spread to Worst

Source: Macrobond, ICE Index, Muzinich, April 16, 2020

PEPP - Pandemic Emergency Purchase Programme, APP - Asset Purchase Programme
PEPP: A decisive moment for Primary market as well


PEPP: Did smooth the rating cliff risk for now

Euro downgrades into High Yield in 1Q20 (Eur, Bn)

- Jan-20: 6
- Feb-20: 8
- Mar-20: 20

Euro BBB, Euro SubFin and Fallen Angels index Spread To Worst (bps)

Source: Credit Suisse “European Credit Trades & Themes”, 6 April 2020

Source: Macrobond, ICE Index, April 17 2020

PEPP - Pandemic Emergency Purchase Programme, PMCCF - Primary Market Corporate Credit Facility, SMCCF - Secondary Market Corporate Credit Facility,
Lack of Liquidity widened bid - ask spreads in a >5 std event*

Source: Muzinich calculations, April 14, 2020

*Bid-ask spreads widened by more than five standard deviations from their long term average.
Strategic Review: A single inflation objective with B/S at ~55% of GDP?

Source: Macrobond, Muzinich forecast end of 2020. Forecast based solely on Muzinich views and opinion. There can be no guarantee the above would prove to be correct. See Important Information at the end regarding forward-looking statements. Not to be construed as an offer, invitation or inducement to engage in any investment activity.

Source: Macrobond, Eurostat, March 2020
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